

## The economic shocks to come

Published: April 10, 2026, 7:00 am

---

Steve Keen and I had a conversation yesterday. It will be out as a podcast very soon. What characterised it above all else was the very different perception that we have of the risks arising from the war in the Middle East compared to most of the mainstream media.

In this context, as usual, I have scanned numerous news reports so far this morning, most originating in the UK and USA, but I also look beyond when I can, and the underlying messages are threefold.

First, there is an apparent belief that the ceasefire announced on Tuesday is real. This contradicts all the evidence that we have. We know that Israel has escalated its attacks on Lebanon. From what we know, these should have ceased as part of the Iran ceasefire proposal. We know, therefore, that there is either no agreement as to what that ceasefire proposal is, which renders it meaningless, or that Israel is determined to ensure that the ceasefire will not happen, which has the same net outcome. The pretence that this ceasefire is real is, then, quite surreal. The current promotion of misinformation as truth by the mainstream media is extremely disheartening, although typical of wartime.

Second, I see deliberate distraction activity. The announcement by Melania Trump that she was not involved with Jeffrey Epstein falls into this category. It is a sign of some desperation on the part of the Trump regime that they are now wishing to draw attention to the Epstein files again so that less attention is being paid to their failure in Iran.

Third, and perhaps most important, is the sense of naive belief that this war is somehow over and its implications will disappear very soon. The FT has, for example, carried a report on BA's plans for rescheduling its aircraft from July, with reduced services to the Middle East but more to Africa and elsewhere, as if jet fuel is going to be readily available by then. The idea that we will be back to normal in the summer, implicit in such commentary, is as misplaced as the belief in August 1914 that the First World War would all be over by Christmas.

Steve and I do not accept any of those narratives. In our opinion, it is very unlikely that this conflict is over as yet, largely because the USA has entirely lost control of Israel. That the USA wants to back off is beyond doubt. [That is the subject of my video this morning](#). The truth is, it has no choice but to do so because it does not have the weaponry left to continue. But this does not mean that the conflict has ended. If Israel persists in its attacks, the likelihood that Iran might do so is high, and the prospect for immediate peace is very low, with continuing economic disruption arising as a result. That Israel's aggression is destabilising the whole region is evidenced yet again.

Second, we do not think that the impact of this war will disappear if peace is agreed. It will take a long time to re-establish confidence in ship passage through the Strait of Hormuz, for example. By then, fertiliser will not have moved when required to ensure that crops can be grown this year. The consequences of this, as I note below, may be the most significant that will arise as a result of this war. And when oil and gas begin to flow again, it will be in reduced quantities. Oil and gas production capacity has been damaged beyond repair in this region and cannot be restored for a number of years to come.

Steve's data shows that the correlation between energy availability and consumption as expressed by GDP, or rather gross world product, which he calls GWP, is very clear and direct. If energy availability is reduced, so too will GWP fall, and the rather ridiculous neoliberal belief that there are alternative supplies to turn on to replace the lost capacity is based on the idea of efficient markets, which can always supposedly react in a moment to price signals, with time to create capacity never being a constraint. That assumption is going to be cruelly exposed at this moment as the nonsense it really is.

In this situation, pretending, as most economic commentators appear to be doing, that the problems we are facing are a minor disruption caused by a temporary blip in fuel prices is ridiculous. What we are facing is the risk of a real long-term downturn in economic activity. In common parlance, that means recession, or even depression.

Steve agreed with me that, as a consequence, what we need are a number of key things, including rationing of food and fuel, because we cannot rely upon price mechanisms to ration supply without dire consequences, including death for those unable to afford the resulting prices. We both agreed that planning for this should have already been underway. The longer it is delayed, the worse the consequences will be.

We also agreed that, both because of the cost of government intervention to manage this environment and because of the need to deliberately reduce excess consumption by those who drive it, additional taxes on those with wealth and income and gains derived from it are essential now, whilst additional taxes on those who will profit from rising prices are also essential, because otherwise the resulting distortions arising from growing wealth inequality will have a massive social and economic impact even when this crisis is over.

What is apparent is that there is very little reflection of this thinking in the media, but I did find an exception this morning. A report [in The New York Times](#) describes how the war involving Iran is already disrupting rice production in Vietnam, one of the world's most important food exporters. The cause is not local failure, but global interdependence. Soaring oil prices, fuel shortages, and fertiliser supply disruptions are already making farming economically unviable in the Mekong Delta area of that country.

The key point that the article noted, quite correctly, is that modern agriculture is fundamentally dependent on fossil fuels. In that case, when war disrupts oil supply, as is happening, diesel, electricity, and fertiliser costs all surge, and production stalls.

I would add that this failure is structural. As I am aware from my experience of talking to farmers in East Anglia, and with this now seemingly being commonplace across many of the world's commercial food supply chains, farmers commit to contractual sales of their crops well before harvest, and sometimes even before sowing. Farmers in Vietnam and East Anglia alike are looking at the economics of these contracts and are deciding that, in the face of guaranteed losses as a consequence of increased fuel and fertiliser costs, it is better to void the contract and not grow at all than face financial ruin.

As is so commonplace now, it is neoliberal market structures that are destroying our resilience, well-being, and, in this case, our critical food supplies.

In the case of Vietnam, another factor is involved. Many crops are grown for export, and because of increased distribution costs, which the food processing industry will seek to recover from farmers, there is a chance that the prices farmers will be offered will fall rather than rise, despite food shortages. The asymmetry of economic power that leads to this outcome will exacerbate the current crisis.

The net result is that we are going to have a lagged global food crisis, and at least The New York Times is recognising that fact. The current energy shock is already becoming an agricultural shock, which will in turn become a food price and availability crisis. As is normal in these cases, the resulting shortages will be particularly severe for poorer, import-dependent countries, but let's not pretend there will not be ramifications elsewhere. The UK is dependent on imported food for between 40 and 50 per cent of our total food supply, and domestic food production costs are going to increase significantly. The impact on those with the lowest incomes in the UK economy will be massive, dramatic, and potentially life-threatening unless the government plans the sort of rationing and tax adjustments that I am already proposing.

And let us not forget that this impact will not be seen in just one agricultural season. If, as I believe likely, and as The New York Times article implies, there will be serious shortages in food production this year because farmers will, rationally, decide not to grow rather than face losses they would find impossible to manage, the knock-on effect

could be a loss of seed crops in following years. We might then be facing a food crisis for years to come.

The implication is straightforward, but so far, little acknowledged. This is not a story about “markets adjusting efficiently.” It is about the fragility of a globalised system that depends on stable energy supplies and geopolitical peace. When those fail, the consequences cascade rapidly through the real economy.

And that leads to the core argument on which Steve and I agree.

Economic systems are not abstract models of equilibrium. They are, instead, physical systems dependent on energy, logistics, and political stability. When those foundations are disrupted, no amount of market theory can compensate. Only politics can, but a politics based upon the belief that economic systems are abstract models of equilibrium may not be able to produce the required reactions in the time available. That is the paradox that we face.

What we are about to learn is that war does not just destroy lives directly. It destroys the conditions that make economic life possible, and a wholly inappropriate understanding of economics can only make this situation very much worse. Our societies will pay a very high price for our politicians’ belief in neoliberalism.